

**INDUSTRIAL RUNNING STRONG AT MID-YEAR.** At the close of 2Q, the San Diego County industrial market occupancy and rental rates both remain near the highest level on record. Net absorption was modestly positive in 2Q, and remains well into positive territory for the year. The pipeline of industrial properties under construction is at the highest level in more than a decade, and the vacancy rate remains below 4%.

**VACANCY.** Direct/sublease space (unoccupied) finished the quarter at 3.82%, a meager 20 basis point increase over the previous quarter's vacancy rate, but still down 7.7% from the vacancy level of a year ago. The vacancy rate for San Diego County's industrial market is now significantly lower than the best number posted in the last period of economic expansion, which was roughly 6% in 2006. The Central and East County areas are at 98% occupancy or greater, and all other submarket clusters in the county have vacancy rates below 5.5%.

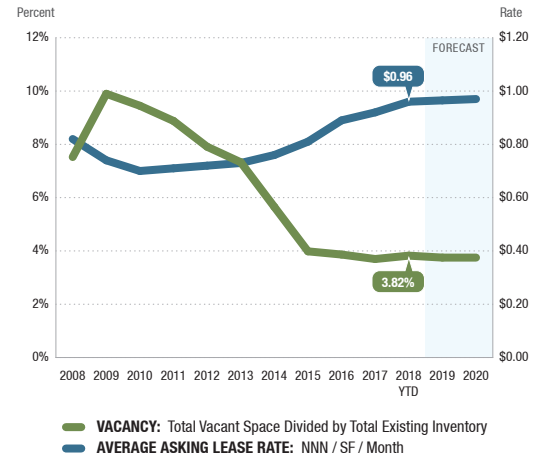
**LEASE RATES.** The average asking triple-net lease rate checked in at \$0.96 per square foot per month, a 5.5% increase in comparison with 2Q 2017. The average asking rate is at an all-time high for the San Diego industrial market. The lack of availability has left tenants with limited options in most submarkets, keeping rental rates high. It is remarkable that rental rates continue to increase at this rate now that it has been more than two years since the rental rates reached an all-time high.

**TRANSACTION ACTIVITY.** The total square feet leased and sold in 2Q was approximately 2.5 million square feet, continuing the slow start to the year in transaction volume. Elevated sale prices and low vacancy have suppressed transaction activity. This statistic can have some lag time in being reported, so look for this quarter's figures to end up somewhat higher in the next report.

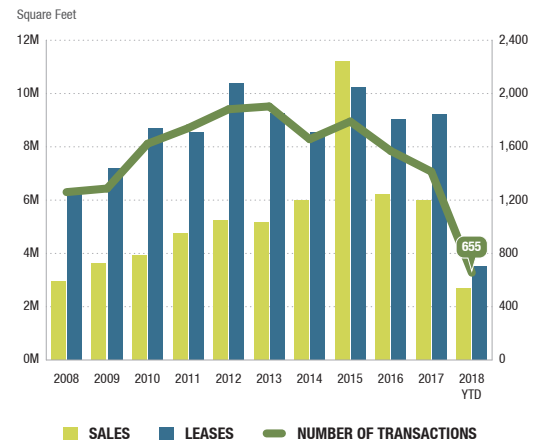
**EMPLOYMENT.** The unemployment rate in San Diego County was 2.9% in May 2018, unchanged from a revised 2.9% in April 2018, and below the year-ago estimate of 3.7%. This compares with an unadjusted unemployment rate of 3.7% for California and 3.6% for the nation during the same period. According to the State of California Employment Development Department, San Diego County gained 32,500 payroll jobs between May 2017 and May 2018, including 15,500 from professional and business services, which reported the largest overall gain. The construction sector reported a growth of 5,200 jobs, and the manufacturing sector reported an increase of 4,600 jobs.

**OVERALL.** The San Diego industrial market conditions remain at or near record highs in terms of the overall occupancy and rental rates, but this has contributed to lower transaction volume and less net absorption. The depleted development pipeline early in the recovery was a big factor in the vacancy rate compression, and the recent increase in construction activity has yet to push vacancy up significantly, but that trend is nearing a tipping point with the highest level of industrial real estate under construction since the year 2000.

### VACANCY vs. AVERAGE ASKING LEASE RATE



### TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



### Market Statistics

	Change Over Last Quarter	2Q 2018	1Q 2018	2Q 2017	% Change Over Last Year
Vacancy Rate	▲ UP	3.82%	3.62%	4.14%	(7.69%)
Availability Rate	▲ UP	7.16%	6.65%	6.71%	6.80%
Average Asking Lease Rate	▲ UP	\$0.96	\$0.94	\$0.91	5.49%
Sale & Lease Transactions	▼ DOWN	2,540,165	3,555,720	3,013,616	(15.71%)
Gross Absorption	▲ UP	1,816,226	1,691,712	1,881,182	(3.45%)
Net Absorption	▲ POSITIVE	37,721	291,989	123,948	N/A

**EMPLOYMENT.** The labor market in San Diego County will continue to improve, although we anticipate job growth to slow. In 2017 there was a 1.2% increase in total employment, and a 1.0–1.5% increase is projected for 2018. With the local stalwarts of defense and biotech remaining strong, look for these sectors to lead the way for employment gains, followed by healthcare and hospitality / leisure.

**LEASE RATES.** Expect average asking rates to increase by approximately 2–3% over the next four quarters.

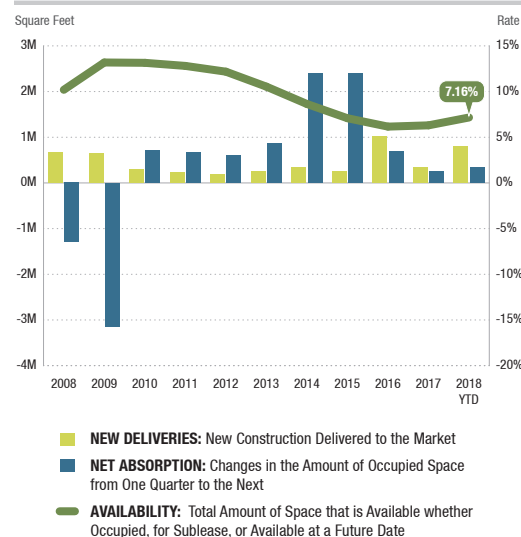
**VACANCY.** We anticipate the vacancy rate will start to move up from record lows as the vacancy rate is now more than three percentage points lower than availability, with 2.25 million square feet currently under construction.

**CONSTRUCTION.** 476,000 square feet of new industrial projects were delivered in 2Q, the second highest quarter total since the current economic recovery began, and there is an additional 2.25 million square feet of industrial projects under construction. This level of new development has not been seen in San Diego in almost two decades. The current product under construction is largely concentrated in the North County, with about a million square feet under construction in Carlsbad alone.

**AVAILABILITY.** Direct/sublease space being marketed was 7.16% at the end of 2Q, more than three percentage points higher than the vacancy rate. The majority of this available space which is not vacant is in the current construction pipeline.

**ABSORPTION.** There was 37,721 square feet of positive net absorption in Q2, a minimal amount, but the year-to-date total of 329,710 square feet of positive net absorption is positioning the San Diego industrial market for its ninth consecutive year of positive net absorption. The I-15 Corridor saw the greatest level of positive net absorption in the second quarter at 152,854 square feet, nearly all of which was from the Poway submarket.

### NEW DELIVERIES & NET ABSORPTION vs. AVAILABILITY RATE



## Significant Transactions

### Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
260 S. Pacific St.	San Marcos	170,822	\$21,600,000	Penwood R. E. Inv. Mgmt.	Hager Pacific Industrial Partners
4039 Calle Platino	Oceanside	143,274	\$20,000,000	Rexford Industrial	Cal-Sorrento, Ltd.
660–664 N. Twin Oaks Valley Rd.	San Marcos	96,993	\$14,000,000	Rexford Industrial	DCT Industrial Trust, Inc.
1320 Grand Ave.	San Marcos	52,250	\$6,885,000	FOCUS Real Estate, LP	Palomar Industrial Park
1958 Kellogg Ave.	Carlsbad	38,900	\$6,463,000	VRS International, LLC	Canard ADD*Ventures, LLC

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
655 Gateway Center Way	Southeast City	86,254	Jun-2018	BAE Systems	JTF Enterprises, LLC
491 C St.	Chula Vista	49,600	May-2018	Undisclosed	GES
5950 Nancy Ridge Dr.	Miramar	46,800	May-2018	ACCO Engineered Solutions	Invesco Advisors
12455 Kerran St.	Poway	32,500	May-2018	Undisclosed	GM Partnership
1515 Fayette St.	El Cajon	32,030	Apr-2018	Undisclosed	Wixen Rosenbaum, LLC

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2018	Square Feet Available	Availability Rate 2Q2018	Average Asking Lease Rate	Net Absorption 2Q2018	Net Absorption 2018	Gross Absorption 2Q2018	Gross Absorption 2018
<b>Central County</b>													
Central City	97	1,463,747	0	0	9,800	0.67%	9,534	0.65%	\$1.33	11,900	43,850	16,700	48,650
East City	61	965,347	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Southeast City	362	4,290,272	0	0	85,120	1.98%	86,941	2.03%	\$1.13	(7,910)	(18,660)	55,086	64,336
Kearny Mesa	427	9,773,688	63,800	24,188	154,220	1.58%	241,866	2.47%	\$1.34	(3,521)	56,443	98,568	258,409
Mission Gorge	114	1,875,000	0	0	27,114	1.45%	41,735	2.23%	\$1.41	15,420	(15,304)	19,910	41,479
Rose Canyon / Morena	132	2,496,426	0	0	19,174	0.77%	63,602	2.55%	\$1.06	13,824	14,139	14,824	43,653
Sports Arena / Airport	142	1,633,700	0	0	21,923	1.34%	41,523	2.54%	\$1.24	(7,000)	(5,527)	0	43,505
Miramar	586	13,200,415	57,000	615,000	415,917	3.15%	781,298	5.92%	\$1.09	(25,491)	9,660	253,441	400,778
Sorrento Mesa	76	3,732,703	0	0	52,910	1.42%	221,117	5.92%	\$1.10	(3,202)	(24,737)	39,554	48,619
Sorrento Valley	40	914,084	0	0	18,041	1.97%	36,438	3.99%	\$1.17	12,389	55,758	22,680	73,529
Torrey Pines / UTC	3	104,448	0	149,663	0	0.00%	0	0.00%	–	0	0	0	0
<b>Central County Total</b>	<b>2,040</b>	<b>40,449,830</b>	<b>120,800</b>	<b>788,851</b>	<b>804,219</b>	<b>1.99%</b>	<b>1,524,054</b>	<b>3.77%</b>	<b>\$1.17</b>	<b>6,409</b>	<b>115,622</b>	<b>520,763</b>	<b>1,022,958</b>
<b>East County</b>													
El Cajon	450	8,981,074	0	112,126	106,551	1.19%	191,216	2.13%	\$0.99	(54,382)	(76,192)	47,785	66,333
La Mesa / Spring Valley	309	2,639,184	0	70,000	68,721	2.60%	160,826	6.09%	\$1.35	(23,997)	(30,897)	12,439	21,703
Santee / Lakeside	277	3,678,680	0	262,395	100,961	2.74%	171,537	4.66%	\$0.95	8,054	(59,329)	14,036	46,155
Outlying SD County South	75	758,829	0	0	0	0.00%	7,366	0.97%	\$0.33	6,000	1,000	6,000	7,000
<b>East County Total</b>	<b>1,111</b>	<b>16,057,767</b>	<b>0</b>	<b>444,521</b>	<b>276,233</b>	<b>1.72%</b>	<b>530,945</b>	<b>3.31%</b>	<b>\$0.99</b>	<b>(64,325)</b>	<b>(165,418)</b>	<b>80,260</b>	<b>141,191</b>
<b>North County</b>													
Escondido	628	7,294,533	212,088	103,500	145,145	1.99%	256,208	3.51%	\$0.96	33,997	(54,118)	106,730	198,837
Oceanside	404	9,014,234	117,528	291,991	453,105	5.03%	794,576	8.81%	\$0.88	(54,027)	(37,193)	73,516	212,024
San Marcos	469	7,733,222	231,028	84,000	511,623	6.62%	816,544	10.56%	\$0.83	37,283	79,573	96,982	180,939
Vista	527	12,753,877	77,850	60,165	714,433	5.60%	1,540,202	12.08%	\$0.89	(142,383)	(169,285)	148,593	223,619
Carlsbad	233	8,211,594	899,656	50,150	637,307	7.76%	1,530,456	18.64%	\$1.05	64,323	296,448	177,087	351,009
North Beach Cities	42	257,017	0	0	0	0.00%	0	0.00%	–	0	0	0	0
Outlying SD County North	107	951,533	0	3,754	36,636	3.85%	29,236	3.07%	\$1.09	(7,927)	(3,234)	8,073	16,459
<b>North County Total</b>	<b>2,410</b>	<b>46,216,010</b>	<b>1,538,150</b>	<b>593,560</b>	<b>2,498,249</b>	<b>5.41%</b>	<b>4,967,222</b>	<b>10.75%</b>	<b>\$0.93</b>	<b>(68,734)</b>	<b>112,191</b>	<b>610,981</b>	<b>1,182,887</b>
<b>I-15 Corridor</b>													
Poway	176	7,325,379	0	532,742	223,112	3.05%	337,354	4.61%	\$0.99	147,144	136,702	251,014	280,231
Rancho Bernardo	42	3,110,726	0	0	261,918	8.42%	232,825	7.48%	\$1.47	2,400	(32,320)	18,689	24,675
Scripps Ranch	28	703,806	0	0	85,824	12.19%	85,824	12.19%	\$1.23	3,310	2,180	8,810	10,990
<b>I-15 Corridor Total</b>	<b>246</b>	<b>11,139,911</b>	<b>0</b>	<b>532,742</b>	<b>570,854</b>	<b>5.12%</b>	<b>656,003</b>	<b>5.89%</b>	<b>\$1.18</b>	<b>152,854</b>	<b>106,562</b>	<b>278,513</b>	<b>315,896</b>
<b>South County</b>													
Chula Vista	325	8,414,699	0	0	155,285	1.85%	411,625	4.89%	\$0.91	(38,195)	(60,743)	88,818	187,029
National City	255	3,826,316	0	0	30,405	0.79%	50,182	1.31%	\$1.18	13,692	25,029	49,367	70,466
Otay Mesa	330	15,415,117	591,214	1,289,212	1,104,979	7.17%	2,060,491	13.37%	\$0.69	40,050	163,894	187,524	530,580
San Ysidro / Imperial Beach	64	1,412,815	0	24,121	24,450	1.73%	36,786	2.60%	\$0.78	(4,030)	32,573	0	56,931
<b>South County Total</b>	<b>974</b>	<b>29,068,947</b>	<b>591,214</b>	<b>1,313,333</b>	<b>1,315,119</b>	<b>4.52%</b>	<b>2,559,084</b>	<b>8.80%</b>	<b>\$0.75</b>	<b>11,517</b>	<b>160,753</b>	<b>325,709</b>	<b>845,006</b>
<b>San Diego County Total</b>	<b>6,781</b>	<b>142,932,465</b>	<b>2,250,164</b>	<b>3,673,007</b>	<b>5,464,674</b>	<b>3.82%</b>	<b>10,237,308</b>	<b>7.16%</b>	<b>\$0.96</b>	<b>37,721</b>	<b>329,710</b>	<b>1,816,226</b>	<b>3,507,938</b>
0–9,999	3,070	15,633,427	9,000	35,988	192,948	1.23%	414,338	2.65%	\$1.19	1,352	18,990	169,349	311,702
10,000–19,999	1,775	25,068,362	0	85,481	702,782	2.80%	1,122,707	4.48%	\$1.11	(134,811)	(194,985)	300,711	624,982
20,000–34,999	982	25,148,958	122,644	324,209	607,911	2.42%	1,244,737	4.95%	\$1.01	21,878	78,641	396,328	786,275
35,000–49,999	358	14,774,117	84,687	254,550	307,272	2.08%	803,658	5.44%	\$0.93	66,794	184,078	245,490	570,008
50,000–99,999	386	26,615,506	580,887	749,883	1,362,479	5.12%	2,606,940	9.79%	\$0.88	(14,360)	(182,001)	280,830	483,793
100,000 Plus	210	35,692,095	1,452,946	2,222,896	2,291,282	6.42%	4,044,928	11.33%	\$0.89	96,868	424,987	423,518	731,178
<b>San Diego County Total</b>	<b>6,781</b>	<b>142,932,465</b>	<b>2,250,164</b>	<b>3,673,007</b>	<b>5,464,674</b>	<b>3.82%</b>	<b>10,237,308</b>	<b>7.16%</b>	<b>\$0.96</b>	<b>37,721</b>	<b>329,710</b>	<b>1,816,226</b>	<b>3,507,938</b>

Lease rates are on a triple-net basis.



## If You Build It, They Will Come...

### by Brian Mulvaney

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The San Diego industrial market remains hot and the overall vacancy decreased 7.7% compared with last year. The availability rate has tightened in most central submarkets as a result of positive net absorption and a lack of new product. In the North County, and to a lesser extent the South County, availability rates have moved higher with the new development that is finally coming online. It took six years of positive net absorption following the recession in 2010 for new industrial development to resume. 2016 was the first year of the recovery to see more than one million square feet of new deliveries. Now the market has a million square feet of product under construction in Carlsbad alone. The more than 2 million square feet under construction in San Diego County at the end of 2Q 2018 is a level we haven't seen in ten years.

The market is more than ready for this new construction. The overall average asking rental rate for the county reached a record high at the end of 2015 and hasn't stopped climbing. The current average rate of \$0.96 per square foot per month is up more than 5% over last year's rate. The big caveat here is that the new development is concentrated in the northern and southern ends of the county. There has still been nearly no new construction in the central county areas, and what construction there has been is largely build-to-suit activity for General Atomics in Poway, which does little to relieve the low vacancy constraints for other Central County occupiers. In the North County it remains to be seen how fast the new construction will be absorbed. The availability rate for Carlsbad is above 18% halfway through 2018. We don't see that getting back to single digits any time this year.

There has been a slowdown in transaction volume with many areas of the county still under 4% vacancy, and some submarkets below 2% vacancy—options for tenants in these submarkets are slim to none. Additionally, the record high rental rates are a headwind to leasing activity. Sales volume started the first half of the year slow as well. The \$385 million of San Diego industrial real estate that traded through the first two quarters puts the market on a pace for the least amount of industrial sales in four years. This may be a breather after the frantic sales levels of the past three years, though. After the summer lull, we should see increased sales activity to finish the year.

We anticipate that the overall San Diego industrial market will stay well in single digit vacancy rates and experience historically high rents for the foreseeable future, even with this new wave of construction. It remains to be seen how much pressure in the Central County will be alleviated from the construction at the edges of the county, and how much of the brunt submarkets like Carlsbad, and Otay Mesa will bear from all this new vacant space.

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This survey consists of properties representing both single tenant and multi-tenant buildings. The lease rates are based on a triple-net basis. The information contained in this report is gathered from sources that are deemed reliable, but no guarantees are made as to its accuracy. This information is for Voit Real Estate Services' use only and cannot legally be reproduced without prior written consent from the management of Voit Real Estate Services. ©2018 Voit Real Estate Services, Inc. License #01991785.

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### Product Type

#### MFG./DIST.

Manufacturing/Distribution/Warehouse facilities with up to 49.9% office space.

### Submarkets

#### CENTRAL COUNTY

Central City, East City, Southeast City, Kearny Mesa, Mission Gorge, Rose Canyon/Morena, Sports Arena/Airport, Miramar, Sorrento Mesa, Sorrento Valley, Torrey Pines/UTC

#### EAST COUNTY

El Cajon, La Mesa/Spring Valley, Santee/Lakeside

#### NORTH COUNTY

Escondido, Oceanside, San Marcos, Vista, Carlsbad, North Beach Cities, Outlying SD County North

#### I-15 CORRIDOR

Poway, Rancho Bernardo, Scripps Ranch

#### SOUTH BAY

Chula Vista, National City, Otay Mesa, San Ysidro/Imperial Beach, Outlying SD County South